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**LATIN AMERICAN MILITARY EXPENDITURES:
SOME IMPLICATIONS FOR THE UNITED STATES**



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by

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Lieutenant Colonel Stuart M. Quigg

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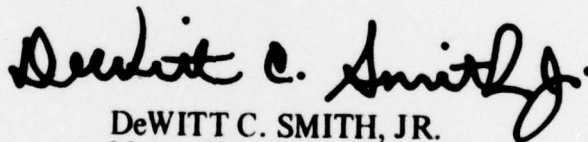
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FOREWORD

This paper was presented at the Military Policy Symposium sponsored by the Strategic Studies Institute and held at the US Army War College in early 1977. Under the general theme "Inter-American Security and the United States," a broad range of issues affecting US relations in the Latin American region were addressed. This paper seeks to examine some aspects of Latin American arms acquisitions and related defense spending, and attempts to assess the impact of such spending on the region as a whole and on the capacities of selected countries to support and absorb them.

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This memorandum is being published as a contribution to the field of national security research and study. The data and opinions presented are those of the author and in no way imply the endorsement of the College, the Department of State, the Department of the Army, or the Department of Defense.



DeWITT C. SMITH, JR.
Major General, USA
Commandant
1 June 1977

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LIEUTENANT COLONEL STUART M. QUIGG has been the Political-Military Affairs Officer, Inter-American Region, Department of State, since 1974. Upon returning from Vietnam where he was the G-2, 1st Infantry Division and later a member of the US Delegation to the Paris Peace Talks, he was assigned to the Defense Intelligence Agency as Chief, Latin American Current Intelligence and later, Operations Officer, Western Area Division. Colonel Quigg is a graduate of Fordham University and holds a master's degree in Latin American history from the University of Oklahoma. A graduate of the Foreign Area Specialist Program, Colonel Quigg attended the Armed Forces Staff College and has held command and staff assignments in Germany, Mexico, and Vietnam.

LATIN AMERICAN MILITARY EXPENDITURES: SOME IMPLICATIONS FOR THE UNITED STATES

This paper seeks to examine some aspects of Latin American arms acquisitions and related defense spending, and attempts to assess the impact of such spending on the region as a whole and on the capacities of selected countries to support and absorb them.

To present the subject in a meaningful manner, the paper reviews the historical background of Latin military spending, identifies the major periods of emphasis on military related expenditures, examines the role of the United States and other supplier nations during these periods, discusses some of the factors that tend to distort the true impact of such spending, and concludes with a discussion of major trends and prospects for the future.

HISTORICAL BACKGROUND

To understand properly the relative magnitude and significance of Latin American military spending, it is essential to view it against the background of recent history. Only then can the extremely modest nature of regional arms spending be fully comprehended and deviations from historic norms correctly interpreted.

For a variety of political and historic reasons, Latin American

nations traditionally purchased their armaments from a wide spectrum of suppliers, primarily European. The United States, at least prior to World War II, played only a minor role in meeting the desires of Latin nations for military equipment. By early 1941, however, with war spreading across Europe, Latin America was included in the Lend-Lease Program as President Roosevelt certified that the defense of Latin America was vital to the defense of the United States. Agreements were negotiated with 18 Latin American nations under this program.

With the entry of the United States into the war and the resultant enforced isolation of the Hemisphere, the United States became virtually the sole source of supply of armaments for Latin America. By 1945, some \$324 million worth of equipment had been provided to the Latin American region, primarily to Brazil, which was outfitting an expeditionary force destined for combat in Italy in 1944. The experiences of the war years helped establish the United States as the single largest supplier of military equipment to the region through a series of sales, grant, and loan programs, a role that went unchallenged for nearly two decades.

It is interesting to note and germane to this study that as early as 1945, the United States had already expressed its concern over the economic impact such continued military assistance might have on the nations of Latin America. Further, restrictions were placed on provision of such aid if there was reason to believe that recipient nations would use their newly acquired weaponry to wage war upon each other, or if they were to be used to suppress internal dissent. All three factors have continued to be fundamental to US military assistance policies and programs during the three decades since.

European suppliers were not idle during the post-war years and their large surpluses of combat equipment, primarily ships and aircraft, found ready customers among the Latin American nations. With the Cold War in Europe, official attention had swung away from the Hemisphere, and the mutual Defense Assistance Act of 1949 did not include Latin America among its beneficiaries. By then, however, Great Britain had sold the first 100 Meteor jet fighters to Argentina and orders were subsequently placed in Europe for 13 major naval combatants. By 1951 and passage of the Mutual Security Act, the United States had formally entered into military assistance agreements with the nations of Latin America. Ecuador was the first to sign in 1952 and by 1955, 11 nations had mutual security agreements with the United States.

By the mid-to-late 1960's, however, the six major South American countries had once again turned to Europe, their traditional supplier of armaments. During the 1967-72 period, Argentina, Brazil, Chile, Colombia, Peru, and Venezuela accounted for 97 percent of all military equipment orders placed by Latin American nations with 75 percent of those orders placed in Western Europe, primarily the United Kingdom, France, and Western Germany. In contrast, the United States received only 13 percent of Latin defense orders during the same time frame while Canada accounted for 10 percent of the market and Australia 2 percent. For the Latin American region as a whole, the United States provided about 30 percent and European suppliers about 70 percent of all military equipment and supplies purchased during this period.

Several significant factors accounted for this shift, not the least of which was European willingness to introduce new, advanced weapons systems such as the supersonic Mirage fighter aircraft as well as a wide variety of tactical missile systems. Extremely favorable, if not concessionary, financing terms offered by European suppliers, when contrasted with restrictive legislation and political and economic constraints on the US ability to respond to Latin American arms requests, accelerated the trend towards the European supplier nations. No less important a factor was the growing trend in Latin America towards asserting greater independence from the United States, manifesting itself by a desire to diversify their sources of arms supply.

Generally speaking, European sales of military equipment in Latin America reached a peak in 1970 reflecting not only increased availability of equipment but also concerted regional efforts at modernization and replacement of aging equipment, particularly combat aircraft and naval vessels. Sharply higher unit costs of new production items and increased sophistication, combined with inflationary factors, drove Latin American military spending to a level five times that of the previously recorded peak during the 1950's.

RECENT TRENDS

Although Latin American spending for military equipment and related goods and services peaked in the late 1960's and early 1970's, the region as a whole spent slightly more on defense in 1973 and 1974 than it did during the previous 4 years. By 1975, however, arms sales to Latin America by some 27 supplier nations reached a record high, something in excess of \$1 billion or twice the previous annual average

of about \$500 million. For the 1970-75 period, more than half the major purchases were for the navies, principally Argentina and Venezuela with the balance going for aircraft and tanks.

Six countries, Argentina, Brazil, Chile, Ecuador, Peru, and Venezuela accounted for over 85 percent of the total of nearly \$4 billion worth of armaments during the 1970-75 timeframe. Of this total, almost three quarters came from the principal West European suppliers.

The European share of the Latin American military market dropped sharply during the 1973-74 period, from the highs of the late 1960's to about 40 percent of the regional total, while the United States increased its share of total sales of military equipment to Latin America from less than 10 percent to over 40 percent in the same period. This very substantial increase in US sales stemmed primarily from aircraft orders involving major purchases or commitments by Brazil and Chile for the F-5E fighter and the A-37B light attack aircraft. At the same time, however, others including Argentina, Colombia, and Venezuela reduced their expenditures for military materiel—one of the contributing factors being the drastic changes in the world petroleum market. A dual effect occurred in Latin American arms spending directly attributable to the world price of oil: some oil consuming nations were forced to alter or curtail their defense spending patterns while others, such as Ecuador were able to exploit their new found affluence in the world arms market.

Despite the large relative increase in Latin American military spending since 1967, little in the way of major new equipment or weapons systems has appeared in the area, notable exceptions being the Mirage fighter ordered first by Peru and subsequently by Argentina, Brazil, Colombia, and Venezuela and French AMX-13 and AMX-30 tanks; Soviet T-54/55 tanks in Peru together with other equipment, including missile systems, and some new naval combatants including 1,000 ton coastal submarines ordered from West Germany. Most of the recent major acquisitions continue, however, to be concentrated on equipment for air and naval forces which, for the most part, are still characterized by Korean war vintage aircraft and World War II era ships. Latin American ground forces have felt the impact of new equipment deliveries the least, although there is a trend toward replacing aging tanks, some predating World War II, with new light and medium tanks and armored personnel carriers.

A factor that continues to influence Latin American countries is their pattern of widespread purchasing from a diversity of suppliers.

This practice has created pressures to replace the multiplicity of weapons systems as logistical capabilities prove inadequate to support such a variety of obsolescent equipment. Despite these pressures and the lessons of history, Latin nations are again demonstrating a reluctance to depend upon any nation as the sole supplier of military equipment and related assistance. Consequently, new acquisitions will continue to reflect the historical pattern of diversity with concomitant maintenance, training and standardization problems.

Compelling reasons of force modernization and replacement of aging and unsupportable equipment continue to be the dominant motivating factors behind Latin American military spending. Despite large infusions of new equipment, the majority of Latin American military materiel dates from World War II and, in some cases, even earlier. All of the Latin armed services—but particularly the six major South American nations with the most highly professionalized military establishments—understandably feel keenly their inability to function with obsolete equipment with the attendant impact on service morale and national concepts of sovereignty.

ECONOMIC IMPACT

Military purchases, even of the magnitudes recorded during the peak years of 1967-72 and more recently in 1975 do not appear to have constituted a relatively heavy economic burden to the nations of Latin America. In most instances, military spending is but a small fraction of the national budget. Steadily improving economic growth has enabled many countries to spend more for modernization and upgrading of their armed forces while at the same time increasing civilian consumption and investment levels. Furthermore, the impact of purchases from European suppliers and, in the case of Peru, purchases from the Soviet Union is further diluted by liberal if not outright concessionary credit terms which spread the payments out over a number of years, often coupled with an initial grace period and very low interest rate.

Another factor that tends to blur the fundamental nature of Latin American military expenditures is inclusion of personnel costs, i.e., pay, allowances, housing, medical, retirement, and other nonmateriel expenses. In many instances, defense funds are also earmarked for civic action type activities in support of the nation-building role of many of the armed forces of the region. Thus, net amounts spent on equipment

tend to remain relatively low, and in recent years, only Peru beginning in 1967 has exceeded significantly the regional norm, reflecting the high cost per unit of such equipment as the Mirage fighters and the AMX tanks. Even large scale acquisitions from the Soviet Union have not influenced substantially the ratio of military expenditures to GNP, largely for the mitigating factors enumerated earlier.

Despite the apparent large increase in absolute terms, military outlays for the Latin American region as a whole averaged only 2.3 percent of GNP for the last decade, a period which included the peak buying years, a norm which is not appreciably greater than for the previous decade. Measured against that standard, Colombia averaged the least at 1.4 percent of GNP while Peru significantly exceeded the norm with a 10 year average of 3.4 percent, reaching 4.8 percent of GNP in 1975. Even though regional spending for armaments and related services has quadrupled since 1940, it is interesting to note that the overall historic trend of Latin American military expenditures continues to demonstrate the same basic pattern it has for over 30 years—namely substantially less than 3 percent of gross national product expended on military related purchases—the lowest level of such spending in the world today except for sub-Saharan Africa. Much of this four-fold increase in military expenditures is attributable in large part to steadily rising personnel and other fixed costs as well as increased unit costs of equipment, a result not only of more advanced designs but of inflationary factors as well. To express the modest nature of Latin spending another way, an example might serve to establish perspective. In 1973, combined arms spending of all 23 nations of Latin America totalled \$476 million. A year later a *single* order from Saudi Arabia ran \$588 million.

PROSPECTS

In spite of what would appear to be heavy emphasis on replacement of equipment, the military establishments of Latin America still possess sizeable inventories of aging and obsolescent equipment. Hopelessly outdated and often impossible to maintain, this equipment will need to be replaced or at a minimum rehabilitated over time. Often it proves far more cost effective to simply replace these units with new production whose higher costs are somewhat offset by savings realized in reducing the logistical problems inherent in older equipment. But efforts at modernization, whether through upgrading of present inventories or

through complete replacement, will be extremely costly. Inexpensive surplus US equipment is no longer available and new production from whatever source is very expensive. Advanced technology, increased raw material costs, and inflation have combined to send prices of new armaments skyrocketing.

In spite of persistent pressure to renew or replace outdated equipment, and indeed, in the case of oil producing countries, a new found capability to acquire modern weaponry, the institutional needs of the major armed forces of the Hemisphere are still rather modest and once met should remain generally stable for the balance of the decade although substantially above the levels of the late 1960's. Whether they will again reach the highs of 1975 is problematical. Although the likelihood of overt external threat in Latin America is minimal and should not of itself be a major factor leading to any sudden departure from the norm, Latin American perceptions of and reactions to the recent Cuban involvement in Angola have produced a measure of very real concern. These concerns could translate into increased demands for purchasing defensive armaments. These, however, could be limited by the fact that concessionary credit terms probably will not be so readily available from European suppliers as they have been heretofore, especially as new and more lucrative markets have opened up in the oil rich regions of the world.

A combination of new found wealth coupled with the perceived threat of Cuban adventurism could generate pressures for renewed spending for upgrading and expanding military establishments. There has been, and will continue to be, no shortage of suppliers willing to meet such demands, even if not on so concessionary a basis as in years past. Such a move toward increasing military expenditures could, in turn, create regional pressures that individual countries might find hard to withstand. Taken as a whole, however, Latin America appears to be generally following its historic arms expenditure pattern and although there may be periodic aberrations, even including another peak as high as 1975, should continue to do so for the balance of the decade.

Several new factors, however, are now influencing US arms transfers to Latin America and should increase their impact over the near term.

The most important and far ranging is, of course, Presidential Review Memorandum 12 concerning the new US arms sales policy. This six-point major policy document underscores a growing US concern over widely proliferating arms transfers around the world. The most

profound impact comes from neither an entirely quantitative nor qualitative change, although both figure in the new policy. Rather PRM-12 represents a fundamental philosophical change. Instead of viewing arms transfers as a normal part of foreign policy, they will now be treated as the exception rather than the rule, to be employed only where there are most compelling reasons for so doing.

Other dynamics impacting upon US arms transfer to Latin America, at least in the short run, and probably for longer: human rights, reduction in military presence and increasing costs.

The latest development has been the renunciation in one form or another of military assistance by five Latin nations, mostly in reaction to the publication of reports on the status of human rights in their countries. Mandated by law, these reports are required for those countries for which security assistance has been proposed. Claiming unwarranted interference in their internal affairs, Argentina, Brazil, Uruguay, El Salvador and Guatemala renounced further military assistance to a greater or lesser degree. The impact of this move throughout the hemisphere is not yet fully manifest.

The 1976 Arms Export Control Act directed the elimination of MAAG's and MILGP's around the world unless specifically authorized by the Congress. By the end of Fiscal Year 1976, the MILGP's in three Latin American countries—Costa Rica, Paraguay and Uruguay— had been so reduced to no more than three military personnel. By the end of Fiscal Year 1977, all the remaining such groups will, unless specifically authorized by law, be similarly reduced. Such reductions are seen by the nations of the hemisphere as a clear signal of a diminution in US interest and a degradation of the historic and highly valued traditional military ties, our protestations to the contrary notwithstanding. With 15 nations of the region presently headed by military men, this message too is being carefully considered.

Costs alone could prove a not inconsiderable factor in limiting arms transfers to the nations of Latin America, even including those addressed earlier as the newly wealthy as a result of oil. Increasing costs have already constrained several Latin nations to curtail sharply defense budgets, a trend that will certainly continue. Increased cost effectiveness and easier repayment terms will be major objectives for all defense planners of the region. Strictly regulated credit terms and relatively short periods of repayment may make the United States less attractive to arms purchasers than in the past, despite a better record of follow-on support and maintenance.

These factors alone, considered carefully by a Latin defense establishment, could be potent arguments for a dramatic shift away from the United States as an important supplier of armaments and afford the access, long sought, for other nations to enter the market in force. Already we have seen the effect that concessionary credit, rapid deliveries and willingness to disregard regional concerns over force imbalance and political sensitivities have had in several nations. Given the present trends in US policy with respect to arms transfers, one could easily postulate a radical shift away from US weaponry, presence and influence and some concomitant increase in third country activity replete with increased political influence.

Against this background of what on the one hand may be seen as a steadying in the trend of Latin American arms acquisitions over the next decade and a realignment of policies and perceptions impacting directly on arms buying nations, we may be on the threshold of a new period in Latin American military buying, one that will see major changes in the traditional consumer-supplier relationships with attendant differences in political ideologies.

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